

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 22, 2008 Through April 1, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 22, 2008 Through April 1, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Washington County Sheriff for the period April 22, 2008 through April 1, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,482,449 for the districts for 2008 taxes, retaining commissions of \$153,021 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,291,573 to the districts for 2008 taxes. Taxes of \$75 are due to the districts from the Sheriff.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

Independent Auditor's Report

We have audited the Washington County Sheriff's Settlement - 2008 Taxes for the period April 22, 2008 through April 1, 2009. This tax settlement is the responsibility of the Washington County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Washington County Sheriff's taxes charged, credited, and paid for the period April 22, 2008 through April 1, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2009, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen

Auditor of Public Accounts

September 11, 2009

WASHINGTON COUNTY
TOMMY BARTLEY, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 22, 2008 Through April 1, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 326,091	\$ 726,190	\$ 2,238,573	\$ 538,225
Tangible Personal Property	40,595	86,442	270,158	232,383
Fire Protection	882			
Franchise Taxes	13,266	28,320	91,042	
Additional Billings	11	21	76	18
Limestone, Sand and Mineral Reserves	38	71	259	62
Penalties	2,018	4,556	13,818	3,430
Adjusted to Sheriff's Receipt	(1,198)	302	(195)	(52)
Gross Chargeable to Sheriff	381,703	845,902	2,613,731	774,066
<u>Credits</u>				
Exonerations	1,072	2,458	7,359	1,767
Discounts	5,549	12,271	38,001	11,920
Delinquents:				
Real Estate	3,957	9,106	27,109	6,511
Tangible Personal Property	3	6	19	30
Franchise Taxes	580	1,252	3,983	
Total Credits	11,161	25,093	76,471	20,228
Taxes Collected	370,542	820,809	2,537,260	753,838
Less: Commissions *	16,036	34,884	69,775	32,326
Taxes Due	354,506	785,925	2,467,485	721,512
Taxes Paid	351,815	780,317	2,449,201	710,240
Refunds (Current and Prior Year)	2,691	5,608	18,284	11,197
Due Districts as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 75

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,935,189
2.75% on	\$	2,537,260

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 1, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Washington County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 1, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Washington County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 1, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2008 through April 1, 2009.

Note 4. Interest Income

The Washington County Sheriff earned \$1,208 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Washington County Sheriff collected \$18,005 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of August 11, 2009, the Sheriff owed \$11,715 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Washington County Sheriff collected \$785 of advertising costs and \$1,710 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Settles, Washington County Judge/Executive
Honorable Tommy Bartley, Washington County Sheriff
Members of the Washington County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Washington County Sheriff's Settlement - 2008 Taxes for the period April 22, 2008 through April 1, 2009, and have issued our report thereon dated September 11, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Washington County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Washington County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Washington County Sheriff's Settlement - 2008 Taxes for the period April 22, 2008 through April 1, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Washington County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Washington County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 11, 2009

COMMENT AND RECOMMENDATION

WASHINGTON COUNTY
TOMMY BARTLEY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 22, 2008 Through April 1, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

The Sheriff's office has a lack of adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. In addition, the employee prepares the disbursement checks, is an authorized signer on checks, and is not independent of purchasing and receiving functions. By the same employee performing these functions, the risk that errors or fraud may go undetected increases. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically perform surprise cash counts and recount cash. The Sheriff should document this by initialing the deposit ticket.
- The Sheriff should require dual signatures on all disbursement checks, with one required signature being that of the Sheriff.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We will try and implement procedures to help with this issue.

